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THE IMPORTANT ROLE OF CONTRIBUTION COST TO ARRANGE PUBLIC PRIVATE PARTNERSHIPS: LESSON FROM DBO CONTRACT AGREEMENT IN MADURA OF EAST JAVA, INDONESIA

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ABSTRACT

Although public-private partnerships (PPPs) for infrastructure are not a new model of partnership between public and private organizations, the nature of these partnerships especially in Bangkalan Regency in Madura – East of Java (Indonesia) has been a topic of debate. In particular, the government and the private sector still face obstacles in reaching agreement, for instance in risk allocation to the parties involved. This study seeks to understand the cost as a manifested of the risk distribution and how it is allocated. The evidence show that the Design-Build-Operate (DBO) contract scheme in Bangkalan Regency between 1990 and 2017 and suggests that the amount of funds that paid annually to the government, namely "contribution cost" was a key determinant in the contract agreement for the partnerships. When the contribution cost (as an accounting number) represents the distribution (allocation) of risk, it is at the same time the power of each actor to seek benefits behind the process towards agreement. Therefore, to uncover and understand the motivations of actors in order to reach it, textual data analysis is an appropriate method for uncovering the facts behind contribution cost as the main requirement in achieving "agreement". In addition it's showing that the scheme is apparently not attractive to investors, the government still cannot leave the dominant role in determining the payment of contribution costs by the private sector. Political Economy of Accounting (PEA), introduced by Tinker in the 1980s, provides a perspective for researchers to understand the economic and political role (policy) of the how the contribution cost is determining and currently applied in contractual agreements. By focusing the role and how the distribution of those cost are created, this paper contributes to our understanding the aim of reaching an agreement in the DBO contract agreement, as well interactions between public and private actors.

KEY WORDS

Public Private Partnerships (PPPs), Design-Build-Operate (DBO), contractual agreement, political economy of accounting (PEA), contribution cost.

In Indonesia, various infrastructure development projects, such as the construction of toll roads, have been carried out since 1978. The financing of toll road development through the PPPs program was first introduced and implemented in the early 1990s (Strategic Asia, 2012). In the field of physical infrastructure development, the government sought to achieve expenditure efficiency through fiscal austerity and financial deregulation, including the liberalization of foreign investment in government projects. However, when viewed in the context of government readiness in running partnership programs, especially in reaching collaboration agreements, there was still a conflict of interest between the government and the private sector. This was because decisions were authoritarian and supported by a monopoly system that sought to hide information in order to avoid open competition and protect the interests of the government. Consequently, decisions were dominated by bureaucrats (government officials).

This site research also took in Bangkalan Regency – Madura, Indonesia. The object of partnership is the modernization of the traditional market by build the infrastructure (physical buildings) become a plaza, namely "BPlaza (BPlaz)". The geographical location of BPlaz is 28 km from the Surabaya city, East Java Province. Bangkalan is close to the coast with a topography of 2 to 100 m above the sea level and so close to the coastline of the Java Sea and the Madura Strait. The population of Bangkalan Regency was 970,894 residents in 2017 and when compared to Surabaya it was 2,874,699 (in 2017), or about 34% less than Surabaya. While the Gross Regional Domestic Product (PDRB) of Bangkalan Regency amounted to USD1,070 compared USD24,190 for Surabaya. From the description of the geographical location and economic indicators, it can be concluded that even though the distance is close to the Surabaya city, Bangkalan can be said not so far from Surabaya. Within every consortium engaged in a public–private partnership there is a subcontract to design and build facilities. With very few exceptions (i.e., the outright sale or sale and lease-back of public assets), design-build contracts site at the center of public–private partnerships tasked with delivering or renovating infrastructure.

The PPP project in Bangkalan Regency is more about Design-Build-Operate (DBO) with the object of partnership[1] in the modern market operations field "BPlaz". This DBO is focused on the Government Assets Utilization model. Assets Utilization of Bangkalan Regional Government (BRG) by Private Parties, PT SSS, is slightly different from other partnership models, for example Build-Operate-Transfer (BOT) that DBO is a concession agreement where the government builds infrastructure and private parties as operators and after completion the contract period is generally 30 years or more, the infrastructure and its properties are returned to the government. However, during the contract period the private party (PT SSS) is obliged to comply with the agreed contract including depositing contribution fees to the government.

DBO contracts, especially in Indonesia, are relatively few compared to other collaborations, such as BOT. At the tender and contract stages, the public agent specifically assesses the ability of the private sector to carry out its operations, also asking whether they are able to deposit a number of the contribution costs[2] required by the government. Although infrastructure investment projects are borne by the government, the private sector is also obliged to carry out operations along with the contribution costs that must be paid, meaning that economic risk is still dominated by the private sector. This is caused by even though the contract is long-term, the contract policy is not always continually revised or renegotiated, so that when there are inefficiencies at the production or post-production stages in operations where the results of the partnership cannot actually meet the requirements, the agreement also not easily changed in such a way as agreed in the initial agreement. However, often the renegotiation efforts that should reflect the final agreement in the contract agreement still allow to reap a conflict of interest, especially in the private sector who feel not satisfied with the results of the renegotiation, it is because the government as the owner of the assets still has authority (monopoly) in determining the agreement.

In this study, the “contribution cost” as accounting number has an important role in the contract agreement succession. BRG as the assets owner makes it possible to push the PT SSS through contract requirements or other policies to deposit the contribution costs to the government. However, the characteristics of an organization or institution determine how it works together with other organizations or institutions. However, the characteristics of an organization or institution determine how it works together with other organizations or institutions. However, it is not easy to reach agreement when the interaction is dominated by personal interests and political-economic factors. Although the various policies underpinning the implementation of PPPs have developed, agreement on a collaboration is difficult unless both sides assess the future financial risks (i.e. costs) and the political risks, due to changes in policy or change of government officials. This is not surprising because various agencies have power and resources that affect the mission and characteristics of a collaboration.

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[1] *The Object of partnership is an object that can be cooperated to include all functions that are under the authority of the autonomous region, regional assets and regional potential and the provision of public services. All objects (in the partnerships) are the main factor that must be considered in the implementation of collaboration and further determine the partnerships model to be implemented (Indonesian Government Regulation 50/2007).*

[2] *Refer to Indonesia Minister of Finance Decree No.78/2014, The contribution cost (fee) is a sum of funds which must be pay annually by the private as an operator to the government as the assets owner.*

Bovis (2012) argues that anticipated costs occur or increase and must be incurred by partners to protect their existence in carrying out operations during the concession period is a risk that is verry important to be a concern by the parties involved. Likewise in the context of collaborative use of "BPlaz" that the process of determining agreements on "contribution costs" is not simply compromised, this is because on the way to an agreement covered by various political processes, such as contractual requirements or other government regulations.

This study assumes that an understanding of the characteristics of DBO in Government's Assets Utilization of "BPlaz" will only be obtained by considering how the process of reaching a collaboration agreement is achieved. To understand the motivation of both sectors in formulating a particular partnership and what is expected of the individual actors (private and public) in various agreed projects, it is important to understand the interactions that underly the coordination and governance of those partnerships. Much of the formulation of governance is inseparable between accounting numbers and the economic and political urgency to achieve the product of the partnership. Based on the context of the research, we formulated the research question:

'What are the interactions and roles of public and private actors in determine to DBO Contractual Agreemement of "BPlaz" Utilization?'

Based on this research question, the purpose of the study was to reveal the interactions or practices an actor undertakes in establishing the contract agreement. This issue becomes particularly important when the contract approval process in a collaboration involves a cost allocation especially "contribution cost" that reflects the distribution of risks to the parties and involves views based on a Political Economy of Accounting (PEA) perspective which was introduced by Tinker in 1980. In this context, when "contribution cost" as an accounting number is used by actors as a basis in determining concession decisions, it's possible in addition to having a role to success in reaching the partnerships contract agreement.

LITERATURE REVIEW

Previous Research and Theoretical Framework

In reaching an implementation agreement in PPPs it is important to have social, economic and political support, or at least specific contributions, if a major scheme for improving the welfare of the community is to be successful. It is acknowledged by the actors involved in a PPPs collaboration that if products have high economic costs and environmental impacts that are perceived to be detrimental to society, it will contribute to public distrust of the product, megaproject or even the partnerships itself (Orueta & Fainstein, 2009). In addition, the process of how contracts are reached, in pursuing an agreement between the assets owners (the government) and the (private) investors, requires a policy that leads to a governance structure that is aimed at providing benefits to institutions/government or society. Therefore, in determining, allocating or distributing risks or economic benefits to the parties involved, the process of reaching an agreement is a political process.

A study conducted by Brown and Potoski (2003), examined how transaction costs were used to assess contract risk between the government and the provider of goods and services as a third party. The risk assessment effort involved complex interactions in a process of negotiation, implementation and monitoring, and frequently raised the risk of failure. The contract risk will be high when the government is unable to describe the future uncertainty in all circumstances when determining contract terms. Transaction costs are important as the basis of rational arguments in setting the cost management governance decisions when an organization's business processes seek to avoid market uncertainty. There are several reasons why the transaction costs in PPPs may be high or increase. The main reasons are the characters and structures of the organizations involved in the collaboration, long-term ownership and funding arrangements, and various arrangements in determining the distribution of risks. The search process (tender and offer), contract and

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monitoring become the focus and at the same time determine the success of the contract implementation. Contract negotiations are very expensive because of the high cost of consulting services and these costs are not limited to the pre-approval stage, since renegotiations are almost unavoidable in contracts that last for several decades (Coase, 1937; Dudkin & Valila, 2006; Martins, Serra, Leite, Ferreira, & Li, 2010).

Power praxis and conflict of interest influence efforts to allocate risk to the particular parties. Cost efficiency in the agreement is very difficult to confirm and costs can only be estimated, because of the amount of uncertainty in the long-term concession period (Bloomfield & F. Daniel Ahern, 2011; Hwang et al., 2013; Iossa & Martimort, 2006; Peric, 2010). This condition leads to political problems in the agreement process, especially when public and private actors understand the cost function in the context of the partnership. This means that government understands cost as a function of service quality, where the expenses must be used maximally to build a good quality of service, but the private sector assumes the cost is a function in the formation of profit, where the costs incurred should be minimal. This conflict of interest will color each party's view of when they have "agreed". Moreover, when contract approval is difficult to achieve, it is often because PPPs are inseparable from the political situation in which organizations must achieve their missions and maintain their existence whilst playing a role in the collaboration (Jang & Feiock, 2007). This means that a conflict of interest can trigger problems that lead to the work not being completed or withdrawal from the agreement for an active contract.

Previous studies have shown that policies employed in reaching an agreement should always defend the alignment on both sides. However, when there is a rotation of government officials, legal policies can make investors vulnerable to politically created regulations. This condition leads to continuing efforts by various groups (private parties) to influence politicians by lobbying them to redistribute both risks and incomes to be received in the future. The private sector sometimes seeks to maintain a favorable policy on its part through the lobby (Henisz & Zelner, 2004). It is clear that the risks, costs and policies/regulations that bind the various parties involved in a collaboration are very important elements in determining the success in reaching agreement on the collaboration contract. However, many previous studies did not consider the problems that arose in the interactions of the actors involved (public and private) when faced with decisions that distribute risk or cost allocation to both parties. These studies also did not consider the role of policy in the process of determining contractual agreements. This is understandable because relying solely on theories of workable competition is not sufficient when analyzing how costs as risk manifestations and accounting numbers are allocated to others. The authors of these studies therefore relied on political economy as a perspective to understand and explain how the distribution of risk is carried out by the actors, whereas investment is related to how through capital is used by actors to establish social and economic interactions. For example, through a policy, the state, government or legal entity, others seek to establish an economic order to ensure the rights and obligations to be gained from each party involved (Tinker, 1980; Tinker & Gray, 2003).

Political Economy of Accounting (PEA) as a Manifestation of Classical Economic Politics

Tinker (1980) criticized the reported income bottom line as a representation of wealth, which reflects the power and monopoly of economic actors (individuals, organizations or other economic actors) to rationally establish inequalities in the right to the benefit of economic profit by certain parties, rather than profit as bottom line the income statement as indicator of economis efficiency, means that this perspective refers to paradigm debate between marginalists (neoclassical), who recognize that profit is a tool for measuring and achieve economic efficiency. Otherwise, the classical economy believe that profit represents from a power possessed by the capitalists and through accounting numbers, with a rule/policy, they seek to build an allocation or distribution of wealth for themselves as well as certain parties, meaning that they (classical economy) are still believes in the reality that accounting is only to serve the capital owners without looking further at interests for the welfare of society, so that criticism by classical economics is leveled out when the absence of justice in which monopoly is still embedded in accounting profits.

Marginalists, such as Fisher (1930) and Hicks (1939), recognize that profits derive from the greatest productivity of resources and have economic value associated with future acquired wealth. This means that earnings have cash flow information that can be used to establish cost policies and can be sacrificed to acquire rights to future assets, as described in Table 1.

Table 1 - Debate in Earning

	Neoclassical Economics *(marginalism)*	Classical Political Economy
The meaning of profit	As an indicator for Economic efficiency	Wealth for the capitalists
Theoretical explanation on how the profit is determined	Marginal productivity theory which focuses on the strength of production	As a political and social analysis which has a relationship between production and social processes

Source: Tinker (1980).

Cooper and Sherer (1984) argued that when accounting profit is a consequence of the social and political system of economic actors, then accounting numbers more closely represents the distribution or allocation of power, to the exchange of prosperity for society than determined by aggregate production. Accounting is not only the result of a political struggle in society but also the result of a political policy whereby accounting is operationalized to defend the interests of some groups that may also harm others. Based on the above perspective, PEA seems to return to classical economic thinking rather than marginalism, where accounting figures reflect the process of building social interaction, through a policy or political process, to acquire the right of acquisition of assets or economic resources.

***PEA* in Revealing the "Black Box" of a DBO Contract**

If we look at the background, the "contribution costs" represents the allocation of risk to the private sector, where PT SSS. On one side, contribution cost as a nonhuman actor has an important role in determining the success of the agreement on the DBO contract within the BRG. On the other side, Contribution Costs are at the same time as an accounting figures that must be agreed upon by both parties in the process which is always overwhelmed by politics and attraction of interest between the BRG and PT SSS to achieve their mission and maintaining their existence in the cooperation. Therefore, in order to uncover the "black box" of an agreement DBO contract, this time PEA is the right perspective to understand the interaction between human actors (BRG and PT SSS) and nonhuman actors (contribution costs as part of accounting numbers, policies and regulations).

PEA is inseparable from the development of modern political economy (marginalism), as a basis for the political economy of governance in society, and the decline of classical political economy in the 19th century. The term 'classical political economy' refers to the theory developed between the seventeenth and nineteenth centuries. This theory seeks to build the concept of a society structure based on an understanding of economics as the foundation for the prosperity of society (Clarke, 1991). The starting point of the theory is simply identifying individuals as the owners of individual property assets (liberal political theory), meaning that classical political economy sees society as comprising social classes that interact with one another. When social classes have different economic functions, they have different economic orientations and interests from each other. It can be concluded that, the main concern of classical political economy is to identify the social classes that comprise societies and to determine economic relations between classes with different orientations of economic interest. It follows that a governance arrangement is important to controlling the relationships and interactiohe social classes (Mill, 2004).

In the context of PPPs studies, political economy focuses on the potential values that shape partnerships. Moreover, the theory of political economy aims to understand the interactions of the actors, who come together to build a partnership, as a social reality. In addition, if we seek to understand how actors interact in reaching agreement and how the regulation/policy that covers (regulates) the process of partnerships is implemented, these two cannot be separated. For example, Obermann (1999) and Stigler (1971), suggested that the government is the supervisor of the regulator, meaning that in general the government, through public institutions, observes directly the profit-oriented economic activities of enterprises, because the regulations are largely made for economic purposes. The basic argument is that various governmental and private actions are overwhelmed by personal interests. This is because from the political point of view, the public institution as a regulator can utilize this position to make a decision for its actions. For example, it can influence the regulations or the financial and political situation for other parties.

An important role for accounting, in the context of partnerships, is to improve our understanding of the role of the actor in determining the contract approval decision. In a partnership, politics acts as a mediation, governing resource allocation mechanisms and how these resources are distributed as political capital (Christopoulos, 2006). That is, when the source of funds distributed and used by the actor as political capital, the meaning of the source of funds will provide definitions in accounting as economic numbers will change along with motivation and political goals.

PEA has not so far been explored by researchers for revealing the distribution "black boxes" in the distribution of risks and benefits in the agreement process. PEA is an especially relevant theoretical framework when we want to explore how costs are accounting numbers that are used simultaneously by actors for allocating risk to other parties. Criticism arises when conflicts between the parties are connected and create inequalities of rights, especially when they seek to control the economy to achieve unilateral prosperity. Marx (1867) argued that economics has played an important role in the social system. The importance of the political economy perspective in looking at the framework of PPPs is that many scientific studies seek to understand government and private behavior by understanding why and how PPPs are created and operationalized. The dilemma that PPPs face is because the programs have experienced a paradigm shift, from improving people's welfare to achieving monetary gains. This paradigm shift occurs when partnerships are seen as a producer of risk distribution for both parties. In this context, the actors in the concession actually seek to produce or generate financial resources through a monopoly system in order to create unilateral benefits (profit). In Indonesia, the PPPs schemes always make the contract procedure work and it is possible that the terms of the contract are determined by the bureaucrats themselves and ignore others outside the bureaucracy. This is the nature of the monopolies that still encompass public organizations, as they seek to minimize risks. For example, closed protection to avoid potential competition in establishing the terms that must be agreed in a concession contract. This is an instrument to achieve a particular party's profit, that is, government, with its authority, has anticipated other private institutions that try to enter the "competition" by creating requirements that only aim to meet the interests of the bureaucracy.

METHODS OF RESEARCH

Unit of Analysis, Site and Informant

The aim of this study was to understand the reality of the concession contract in physical infrastructure development. This often involves the actors as the parties who play a role in making and implementing the policy. The focus of this study, analysis to reveal the

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interactions between members of different organizations (public-private) when they have to collaborate. Informants in this study are shown in Table 2.

Table 2 - Principal Informants

No.	Informant
1.	Heads and sub-heads of the Regional Financial and Asset Management Board (BPKAD)
2.	Unit of Regional Government Partnership
3.	Private parties as concessionaires
4.	Current and former government accounting staff
5.	Heads of Department related to the PPPs project

Data Generating and Analyzing Steps

(1) The PEA perspective allowed interviews with open-ended questions to be conducted with the actors involved in the partnership.

(2) A semi-structured interview was used with the aim of making the actors (intersubjective) think about partnerships, in an effort to understand the motivation of the actors who were collaborating. At this stage, we explored and defined individual roles as well as rules/policies used to arrange agreements. Understanding the motives or initiatives of organizations (as stakeholders in PPPs) to collaborate and at the same time, is important stage to understanding the role of each actor using "cost" as an accounting number and it has the economic value as well as the through accounting figures as a magnitude the economic value as well as the political element to build the distribution of risk for others.

(3) Understanding of the process towards contractual agreements is re-negotiated when it focuses on the concerns of creating valuable accounting in the community. Therefore, PEA is an analytical tool in a critical perspective when "contribution cost" as accounting number is to arrange a distribution of risk to one party and economic benefits to the others, and more that creates inequality in society. This means that when accounting practices fail to improve the welfare of society, then accountability to the stakeholder should be questioned. The inequality of rights to the economic benefits of accounting products is still a problem that remains to be solved.

RESULTS AND DISCUSSION

DBO of "BPlaz": More to the Mandatory than the Needs for Collaboration

DBO of "BPlaz" is partnerships between BRG and PT SSS in Government's Assets Utilization i.e. "BPlaz" is a plaza-shaped modern market located in the BRG neighborhood. The government through the Regional Government Budget (APBD) only builds a Modern Market infrastructure called "BPlaz" and the private sector, PT SSS as the winner of the tender, has the right to operate and after the contract period is completed it is required to return the BPlaz infrastructure and all its properties to the government. As in Indonesia in general, in the BRG environment, partnership with the DBO scheme refers to Government Regulation No.38/2008 aboutbout the Management of State-Owned Assets and Properties. In this regulation it is defined that partnership in the field of Government's Assets Utilization is the Utilization of State Property by other parties within a certain period in the context of increasing non-tax/regional revenue and other sources of financing. Although it is explained in paragraph 26 that the contract period is a maximum of 30 years and can be extended again, this time in the DBO contract it is stated that the operational time in the field of asset utilization is only 15 years but can be extended again on the basis evaluation of PT SSS as an operator. The initiation, carried out by BRG as a party that has state assets by building physical infrastructure in the form of a modern market by swallowing APBD and multiyears funded in 2010 until the end of 2011 with a total fund of around USD3,518,850. Likewise, at the beginning of the development stage there was a rejection from the surrounding community leaders who came from the solidarity of the community concerned about merchant who raised objections to the construction of BPlaz, for example:

"... we reject the arrival of this modern market, because it can disrupt the economy of the surrounding community because this modern market is located very close to the traditional market that many merchant from the community around the modern market too ... how can we (merchant) be able to compete with this modern market?" (Informant, 2017).

The BPlaz development plan by BRG in the DBO scheme and was initiated several years before 2012 was not based on previous experience in building PPPs, so that most of the local budget sources were used for infrastructure builders. In accordance with Government Regulation No. 06/2006 concerning Management of State/Regional Property and subsequently completed through Permendagri No. 17/2007 concerning Technical Guidelines for Management of Regional Property, it is concluded that the definition of utilization is the utilization of regional property (assets) by other parties within a period of certain time, in which the assets are not used in accordance with the main tasks and functions of regional work units, one of which is in the form of collaborative utilization. But before it was decided to be managed through a collaborative program, the fact that the land and building assets owned by BRG had been used by the Madurese community as a traditional market called KLD, meaning that the land and building assets before the BPlaz were built, were traditional markets that had been used by merchant, majority from the community surround to trade every day.

The statement above is also supported by Naj, an informant, one of the (small) traditional traders:

"This market (KLD traditional market) has actually only been built for three years, but right next to it suddenly built a huge plaza (BPlaz modern market) like that ... we feel rivaled by the plaza, we just have to die. Not to mention the capital we gained from the debt in the bank has not been paid off and now we have to compete like this ... it is impossible ... doesthe government not see our presence (merchants in the KLD market) anymore". (Naj, January 12, 2017).

At this point the infrastructure project should be a solution to improve the welfare of the surrounding community, meaning that the modern market project must be able to reduce the economy gap between small (traditional) traders and sellers of goods/services in the modern market. However, the BPlaz Project seemed to be a "must" to be implemented. Meanwhile, on the private side (business entity) at that time was still filled with doubts about the partnership that was felt still risky, meaning that unclear information from the government gave a lack of commitment to the support of the private sector in meeting the needs of collaboration, as illustrated below:

"I think at that time the retail business especially in that area (BRG environment) was different if I did it in other cities, for example in Surabaya. Previously we also thought that the economic conditions of the people in the region would also affect purchasing power, while we were also required to be able to make a profit ... not to mention that we had to invest. Besides that, how about the rule of law such as contracts, we also have not got clear information because it is also important for us to see the future of the business" (Khoe, PT SSS as a private party, 2017).

Conversely, government actors argue that the creation of a business environment should also go hand in hand with forming or changing the way of thinking, especially local people, to be able to accept modernization. Therefore, BRG assumes that the creation of a modern environment must be accompanied by the formation or change of the mindset of the community, as expressed by the following informants:

"At Bangkalan area is indeed far from big cities like Surabaya moreover separated by the Madura Strait, not to mention the condition of the people here, fishermen or farmers majority ... it is different from Surabaya which is already modern so it seems difficult to change the mindset (thoughts) of the community to be more modern. This is at the same time become a challenge for us (BRG) to be able to change the mindset of society but not abandon our cultural values (Madurese). Why is that? The creation of a modern business environment here (Bangkalan) is not easy, moreover we don't have experience in creating a modern business environment like this (BPlaz), protests from various community organizations (NGOs) also often occur". (Head of BPKAD, BRG December 15, 2017).

Although at this early stage there were problems regarding the unclear economic benefits and even rejection from the community, especially merchant and also doubts from the PT SSS as an operator about the economic benefits compared to the operating costs to be borne by PT SSS, but the government namely BRG remained realizing infrastructure development with the inauguration of May 10, 2012.

The BRG decision illustrates that the government head still has the power to decide on the implementation of the initiation program, meaning that without seeing the interests of the community even infrastructure development as part of the partnership program is mandatory to be realized. The fact that at the initiation stage, the dynamics of the collaborative process are often decided unilaterally within the BRG environment, meaning that the decision of partnership is mandated to continue to be implemented without involving intensively in negotiations between the public and the private sector, so often the decision to establish partnership is basically only political in nature and also not based on community needs or ignoring the role of the private sector. In other words, that the structure of relations between organizations will always depend on the strength and interests of the government.

DBO of “BPlaz”: An Ambitious Partnership Scheme

Referring to the geographical location between BRG and Surabaya as the second major city in Java after Jakarta City, and the distance of about 32 Km between BRG and Surabaya City triggers the assumption for BRG that Surabaya can contribute to increasing BRG's Local Own-Source Revenue (PAD) from the real sector, as expressed by Bp. JP, as follows:

"We (BRG) think that in the future this government will at least be on a par with Surabaya, especially in terms of PAD, why is that ... actually if we look at the location of the BRG it is also not far from the big city of Surabaya and is now relatively easy to access by road because there is a suramadu bridge, so that community mobility will increase and is expected to bring the spread of trade and economic growth relatively quickly, especially for local governments. This condition should have a positive impact on a significant increase in PAD. Departing from these thoughts, it is not wrong for us to start by opening an investment" (Head of BPKAD, BRG Bp. JP, December 15, 2017).

The development of traditional market infrastructure into a modern market "BPlaz" is indeed an ambitious plan for the BRG. Based on the geographical location, BPlaz construction is relatively not far from Surabaya, this makes the BRG optimistic that it can match Surabaya in the acquisition of PAD, but if you see the PAD difference in this two cities look quite striking, as shown in table 3 below:

Difference in PAD between BRG and Surabaya Municipal from 2013 to 2017 can be said to be under 1% on average against Surabaya Municipal, meaning that at the start of the BPlaz operation until now it has not contributed to a significant increase in BRG’s PAD so that it has not been able to pursue like the PAD of Surabaya Municipal. Based on these facts, BRG believes that an effective collaboration scheme in attracting investors is DBO, as stated by one government informant, as follows:

"Considering the BRG condition, both in terms of culture and geographical location, it is not possible to build partnership schemes such as BOT (Build-Operate-Transfer) or other similar types. We will find it difficult to attract investors, so we decided to create an utilization partnership on DBO scheme, where we build infrastructure through the local budget and then open up opportunities for the private sector to operate the infrastructure” (Head of BPKAD-BRG, December 15, 2017).

However, if we look at the second stage of creating partnership, for instance the tender/auction conducted by BRG, that the announcement of the first tender/auction was held at the beginning of 2012, at the opening of this tender only one investor carried out offer. Then a second tender was opened to give other investors an opportunity to make a partnership offer. In the second tender announcement, still remainone investor made an offer, namely PT SSS. The procedure in accordance with Minister of Home Affairs Regulation no. 17 of 2007 regarding technical rules for tenders/auctions, if after 2 consecutive bids have been announced, it turns out that during the bidding process only 1 investor made the bid, the auction process was continued with direct appointment then conducting technical and price negotiations, for example an agreement on contributions cost to be paid during the contract period by partners, as stated by staff from PT SSS, as follows:

"... actually, partrnerships is not very interesting for us (PT SSS). This is because the government itself often pressures us, especially in contracts for determine the cost of contributions that must be paid to the government. Approval in an agreement (reaching the word "agree" in a contractual agreement) generally takes a long time, then the implementation of development will also be stalled. Besides that, the government itself often pressures us (investors) to pay contribution costs on time even though the actual collaboration period for us it is still too short e.g. 35 years, we are have not been able to cover the investment and operational costs (cost recovery). Actually our risk here (in collaboration) is very big" (Interview, Lliany, May 25, 2017).

Table 3 - Comparison of BRG's PAD and Surabaya Municipal in 2013-2017
(in USD & assumption 1 USD: 14.500 IDR)

No.	Year	"BRG"	Surabaya Municipal	Difference (%)
1.	2013	267,502.98	196,463,025.66	0.01%
2.	2014	360,330.24	232,759,541.15	0.02%
3.	2015	470,540.62	284,016,869.67	0.02%
4.	2016	583,917.97	287,973,323.86	0.02%
5.	2017	714,678.43	296,467,968.51	0.02%

Source: Central Bureau of Statistics & Budget Realization Statement of Surabaya Municipal. Year 2013-2017.

On the other hand, the government can exert pressure on the private sector as the single bidder, as well as risks to the government because there is no comparison (other bidders) in assessing the capacity and experience of partners in implementing partnership or DBO especially. The statement of informant, namely Liany shows that the dominance of power that is still possessed by the government is to represent the transfer of government risk to the private sector. Various assumptions and arguments from the private sector show that the distribution or allocation of risk triggers the private sector that DBO is very risky and even is a scheme that does not appeal to them (investors).

Local Government Monopoly in Achieving Contractual Agreements:The Importance of Contribution Cost as Eligibility Requirements to the Winner

Achieving an agreement often involves a variety of interests and powers that can be considered the ideal thing to be practiced in political context. For example, in the case of contribution costs, according to Minister of Finance Regulation No.78/PMK/2014, these costs represent a certain amount of funds received by the private sector which are paid to the government. Contribution costs are more important requirements in partner determination than the partners' experience and expertise in the specific infrastructure, or other requirements. Evidence for this comes from the following statement:

"... the most important requirements of partnerships is contribution cost where it is used by the government as the basis for determining the partners ... the contribution cost must be paid to the government and in fact there is no formal guidance for determining the amount. ... the government determines the magnitude of raising a certain amount from private parties as a basis for making the bidding to private parties" (Government Officials in the Field of Investment and Licensing. 2018).

As this statement shows, although there is an opportunity for the private sector to make an offer, the government unilaterally has the power to decide on the cost allocation to be imposed on the private sector. In various inter-organizational interactions, power to maintain relationships between organizations (actors), is treated as capital for the purpose of obtaining certain benefits. As stated below, of course in determining the tender winner, the amount of funds that must be paid to the government is not the only factor.The experience of the partner in cost management to improve the physical quality of the infrastructure, is also important, but the fact remains that the main requirement of the winning bidder is the cost that must be paid to the government. This supported by the following statement:

"Potential criteria for winning bids from private parties, besides the experience, also the amount of contribution cost that must be paid to the government" (Government Officials in the Field of Investment and Licensing, 2018).

In determining the contribution cost, bureaucracy is like an institutionalized system of power, where according to functional logic, the power is used as a medium to distribute risks in an inherent relational system, as Parsons (1963) puts it in defining bureaucracy:

"A relational system in which commitments and obligations are voluntarily associated, for example through a contract and in normative conditions was treated to bind one another to be enforceable to the agent by considering the corresponding of mutual role ... in the event of a threat the real resistance to 'compliance' then they will be 'imposed' by a threat or the imposition of situational negative sanctions".

The manifestation of power clearly reveals that the government still has the opportunity to exercise a monopoly in making contractual decisions. Implicitly this means that bureaucrats try to interpret the size of the contribution costs that must be paid by the private parties In fact there is no policy regulating how the amount is determined. The dominance of power shows that bureaucrats try to dominate the thinking of partners, which in turn has an impact on lack of attractiveness to projects that are tendered, for example in the following statement:

"Cases have often arisen where the (private) partners are adamant in withdrawing their proposals for approval from the government. This is due to reference to the implementation of collaborative rules that do not fully take into account other requirements (other than contribution costs) in the assessment of partnership" (Head of Regional Financial and Asset Management Agency, 2018).

This statement leads us to understand that the power allows for no longer the focus of how an organization, group, or individual can afford to shape the collaboration, but only to achieve their goals. This is because existing power relationships are firmly rooted and seek to maintain a relationship or governance system, consequently, they are very difficult to change. This means, when collaboration does not provide an economic benefit to the institution, the bureaucrats may be reluctant to recognize partner capacity when the partners attempt to enter the tender with all the necessary experience to win the contract.

Rhetoric of Government Power: Contribution Cost is a Resolution in Contract Approval

Besides being the latest scheme for government expenditure efficiency, PPPs are also seen as a more open and accountable form of financing governance and a means for providing public goods and services based on tender mechanisms. The policies and regulations developed by the bureaucracy depend on economic structures or historical phenomena and aim to produce progress, or a development method or framework to facilitate the service structure during the transition period (Bauer, 2010). In the contract of "BPlaz", when local government use DBO schemes for the purpose of reconstrtucting expenditure for efficiency, then DBO should automatically require reconstruction of the role of a highly monopolistic, structured and even supported government institution with rules and procedures coordinated with a closed hierarchy into a more open and competitive mechanism with refer to the collaborative/concession agreement. However, the weakness of the policy provides incentives for the difficult process of determining agreements, especially when there has not been write down the rule clearly or not adequate underlying the decision process. For example, in the following statement:

"The first tender requirement was a contribution. If there is another requirement it is usually experience. But the contribution is not regulated" (Staff of Financial Management and Regional Assets, 2018).

It is further argued that:

"However, there is no technical guidance in determining the amount of the contribution cost, so that decisions on magnitudes other than negotiations may also be stipulated by the competent authorities or regional heads as the main requirement in determining partners. For example if private A is able to provide a contribution cost that is greater than the other, then it will be a partner in government infrastructure projects" (Head of Local Government Accounting, 2018).

Moreover, private parties, as stakeholders, argue that they entity also has influence on the policy outcome in determining the partners. For example, one person interviewed confirmed a group's influence on bureaucrats to request facilities in the construction of a particular project, which means they are trying to get into the tender and be selected as partners, but the decision is again dependent on the regional head.

"You will have a better chance with staff, because they think or know their boss will look for something from this partnership project" (The former staff in Partnership Unit, 2018).

It was suggested that public staff had more influence on the regional head than other government officials. The interviews reflected the view that executive positions can make the private sector willing to negotiate. When they are faced with more stringent or unilateral rules then they have to negotiate. Therefore, the role of regional head determines the success, especially the decisions that must be taken to determine partners in government projects.

However, the head of the region is not the only important player in determining the policy that particular industry groups or private parties are allowed to consistently maintain a privileged position in the bidding process. This is more due to individual (private) relationships to government staff and even the head of the region. For example, one interviewee briefly denied that the contribution cost was not the only determinant in underlying decision-making, but the closeness of the relationship, such as family or emotional closeness, too, sometimes had an influence in policymaking.

"... sometimes the emotional closeness between industry can also influence the determination of collaborative policy, especially when the regional head has to decide the winner of the tender, for example through direct appointment of the partners selection" (The former staff in Partnership Unit. 2018).

If we look at the statement, this dominance in the decision making process causes further problems, if we accept that the policy for reaching a agreement involves impartial consideration of the various pieces of evidence. On the contrary, this domination indicates that the decision made by government officials was to be obeyed by stakeholders and the government tried to reduce outside criticism.

If we consider the policy underlying the contract, then the contribution cost results in a conflict of interest. Conflicts arise when the private sector immediately disagrees with the terms of the contract. It is as though, in these partnerships, the government has unilaterally determined and bought the price in the contract. When the contract is approved, the private sector has effectively approved a set of policies that were actually determined by the government and which do not take into account various exceptions from the private sector. Not surprisingly, this creates a continuing conflict when the the contribution cost has not been paid to the government during the operational period, for example, in the following statement.

"… in the DBO there should be a kind of formula in determining the amount (contribution cost) but should be flexible to the private ability to pay to the government within the agreed time frame ... although there is no standard rule on determining the amount. Finally, the amount and timing of payments are based solely on negotiations". (Government Officials in the Field of Investment and Licensing. 2018)

"...if negotiations do not lead to "agree" on the contribution cost between the government and the private sector, then it will have an impact on the uncertainty of the price where the people (as the end user) must pay for the public facilities". (Private Parties, 2018).

Uncertainty of the rules and the lack of transparency certainly has consequences, especially in determining the partner. As stipulated in Presidential Decree No.38/2008, the

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implementation of the determination of partners should be carried out by tender in an open manner. In addition, other important aspects of transparency are the openness of various contractual policies and the government commitment to collaborate with those partners who have met the requirements based on the policy. This means that there should be neutral implementation of the rules and protection from manipulation, to meet unilateral interests. Therefore, when there is no reliable transparent action in the entire PPP process, it is certain that private parties who wish to engage in a contract can always be easily and unilaterally excluded for various reasons, because there is no certainty in PPPs, for example in the following statement.

"...in fact DBO schemes require private parties that have the ability to manage risks efficiently. This means that if there are private parties willing to take PPPs projects, then it is certain that the private sector is really capable in funding with all future risks due to regulation uncertainty" (Government Staff in the Field of Investment and Licensing, 2018).

Although there is a conflict of interest between the focus on collecting revenue for local governments and avoiding the risk of uncertain economic benefits for the private sector. In 2012, through the local government decree, it was unilaterally decided by the local government concerning the amount of the fixed contribution costs that must be paid annually to the government, in the amount of USD21,113.10/year.

A possible change that would make the bidding process attractive, could be to keep the understanding of the purpose of partnerships focussed on the prosperity of society and to keep the partnerships under surveillance. Private entities should be allowed, even encouraged, to make transparent offers and decisions. This is because private entities may have specific knowledge of environmental conditions and risk analysis that allows them to benefit from the costs incurred. Criticism of the idea of increasing transparency in the determination of partners who will engage in PPPs projects should seek to encourage increasing the number of bidders and even though not all we can avoid political pressure, but policies should not to protect of certain parties which ultimately lead to inequality of the rights to the economic benefits such as the policy of determining the amount of the contribution cost (return) that must be given to the government where it is burdensome to the private sector. The determination of partners should be clearly assessed based on complementary expertise between the government and the private sector.

"We (the private sector) are very minimal (rare) to be invited to discuss the issue of determining the profit sharing or contribution costs that must be paid to the government ... especially the tax incentive issue, I think we never got an invitation for discussion at the beginning, all of it was decided by the government even though there will be its own forum through the proposed objection and finally addendum ". (Khoe, January 15, 2018).

The statement shows that the form of political monopoly appears in government efforts, especially in developing policies and contract decisions by not involving the PT SSS as a partner. The contract appears to focus on revenue collection both through revenue sharing and contribution from partners. Therefore, the discretion of government in developing regulations and policies tends to focus also on the goal of commercialization of partnership products. The dominance of the power of government actors appears mainly in determining contract decisions, meaning political monopoly as a government's strategy by minimizing the role of partners to fulfill DBO contracts.

In this context, although in general partnership aims to integrate the resources of each party (PT SSS and BRG) and most importantly to attain a contractual agreement, on the contrary, combining and reconciling individual interests with collective interests is often too difficult for collaborative building efforts. Therefore, the interaction and role of each party involved shows the willingness of each individual to collaborate and not only because of the obligations that are able to be borne by each party involved, but have expectations of the distribution of benefits to be gained in partnership.

CONCLUSION

Our empirical research on public and private sector partnerships in Indonesia provides insight into risk allocation processes and practices based on the distribution of contribution costs. The focus of cost allocation in partnerships becomes an important issue for organizations that have non-profit characteristics and funds are subsidized by the public, so they strive to achieve efficiency in public expenditure. This study presents the role of policy (politics) as a vehicle of government actors in reaching an agreement. This has not been debated within the context of the PEA, see for example, (Cooper & Sherer, 1984; Tinker & Gray, 2003; A. Tinker et al., 1982). Although PPPs are often based on cost allocations as a manifestation of the distribution of risk to partners, in practice this not only includes economic dimensions, but reaching an agreement is inseparable from the transparency of the rules underlying the collaboration. An example is the formulation for determining the size of the contribution cost, which is not regulated and is only based on negotiations between public and private parties. This makes PPPs unattractive for investors and they do not enter the tendering process and engage in government projects.

Based on our findings, there is four important lessons that is getting our concern. First lesson, accounting numbers i.e costs, in PPPs in Indonesia represent risk allocations that are the result of the dominance of power through policies made unilaterally by government actors and which ignore partner reputations. Thus, the experience of partners who have been involved in government projects for many years, as well as their knowledge and skills, do not lead the government to trust in the partner's capability. It also means that the private sector realizes that local government are always dominant in determining agreements.

Second lesson, the study found that during the transition from monopoly to competition, regulatory policies were developed that depended on the historical structure of partnerships. Emerging contractual practices reflected situational approaches that would likely cause risks to arise, such as high costs that result in the interruption of partnerships. On the other hand, the evolution of partnerships is beneficial as a method of collaboration in the future or in transition. For example, in Bangkalan - Madura, DBO is politically constituted by government regulations. But in practice, the agreement decision is still based on the size of fees obtained by the government through contribution costs. The size of the contribution cost is determined unilaterally by the bureaucracy. This provides an opportunity for the bureaucracy to exert pressure on the private sector, making this a predominant requirement for protecting partners in partnerships projects.

If we see Indonesian PPPs phenomenon during the 1990s to 1997/98, monopolies of government still often occurred in attaining contractual agreements. For example, the process for determining the winning bidder for a contract agreement often did not go through open and competitive procedures (i.e. the government provided protection against potential competition), so private institutions that tried to enter the competition" needed to meet the interests of bureaucracy. These conditions also indicated that the government still had absolute power in determining the PPPs agreement as expressed by Pino (2015):

"At that time, the 'monopoly' of the government in the reproduction of services by establishing partnerships with other parties still strongly cover up the process of determining the concession regulation or the partners who unilaterally ignored the private role".

Third lesson, The DBO project actually does not require a lot of private equity. It's, caused that the initial investment costs are charged through the APBD. DBO BPlaz funding is more about utilizing government assets and this is the most challenging problem from the initial. According to the Head of the Government Financial and Asset Management Agency, that the most successful DBO contract agreement is about the private party is able to pay the contribution cost to the government in the amount of USD21,113.10/year. On the one hand, the concept of DBO partnership is new to BRG because the government has no prior experience. In the other hand, the government needs to guarantees contribution cost that must be paid by the private sector as a concession holder. Furthermore, if you look at the contractual requirements, i.e. behind the ability of the private sector to pay contribution cost to the government, the private sector must seriously look at their own ability to cover operational costs with the level of risk of purchasing power of the community for partnership products is far under other big cities, for instance Surabaya city.

Fourth lesson, In Madura, evidence shows that private participants in the DBO project have not played an important role in the formation of government policies in terms of win-win solutions to profits and incomes from both the private sector and the government itself. Policies and rules are more dominated by BRG as the owner of government assets. Consequently, BRG makes it possible to pressure (private) partners to unilaterally determine the revenue that should be received by the government.

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